

EXECUTIVE OFFICE OF THE PRESIDENT
COUNCIL OF ECONOMIC ADVISERS

Date: *Sept. 26, 1958*

STATINTL

To:

C. I. A.

From:

Harold B. Lary

*You might like to see
these notes of two recent
talks with the Soviet
Commercial Counselor,
though I doubt that they
contain anything at all
new.*

H. B. L.

No Referral to NSC - per NSC Waiver

Memorandum of Conversation with Mr. Alkhimov, Commercial Counselor
of the Soviet Embassy, on September 24, 1958

Yesterday I had Mr. Alkhimov as my guest for lunch, returning his courtesy of August 7. Having in mind the interest he then expressed in sources of information on the U.S. economy, I asked Mr. Schultze to accompany me.

Our conversation bore chiefly on three topics: Soviet procurement efforts here; economic conditions in the United States; and pricing problems in the U.S.S.R. Nothing particularly new emerged, though I should say that Mr. Alkhimov continued to show greater balance and objectivity than has usually been my experience in talking with Soviet officials.

Mr. Alkhimov stressed the well-known Soviet desire to place large orders in the United States for equipment for the Soviet chemical industry, especially the synthetic fibers branch. These would be for entire factories ready to operate, though with building materials supplied locally. While disclaiming any special knowledge, he said that in the view of experts, both American and Soviet, the level of Soviet technology in the chemical field was as good as anywhere else, and he referred in this connection to their large centralized facilities for abstracting and translating foreign publications. Their production capacity, both for chemicals and for chemical equipment, was, however, very limited, and speed of delivery was their reason for seeking U.S. equipment, even though it was perhaps more costly than that available in Western Europe. Together with a visiting member of the Gosplan (a Minister before the reorganization of industry) Mr. Alkhimov had visited Secretary Weeks, who had advised them to explore their interests with American companies and to have the latter approach the State Department with regard to the question of export licenses. They had found a keen interest on the part of American business but no deals had yet been consummated. Mr. Alkhimov stated that, since the Khrushchev-Eisenhower exchange of letters, he had been overwhelmed by a flood of inquiries from American enterprises, which he found difficult to deal with because of inadequate staff and lack of a secretary expert in the English language. We suggested that, for purposes of business correspondence, he might have recourse to the services of some good stenographic agency, and he indicated that this would suit him personally very well.

Our talk about the U.S. economy concerned chiefly the reasons for the brevity of the recession and the prospects for recovery. Mr. Alkhimov reiterated what he had said before about the refusal of his institute in Moscow (The Foreign Market Research Institute, of which he was First Vice-President) to engage in deeply pessimistic predictions about the

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course of the U.S. economy. In the present circumstances of the American economy, however, he did feel that the problem of excess plant capacity would tend to work against any rapid increase in industrial production to full employment levels. Mr. Alkhimov mentioned that one of the duties of the Institute was to make short-term forecasts (six months to one year) for different national economies and commodities. He felt that, on the whole, their record was pretty good, though sometimes their forecasts had been completely upset by unforeseeable developments such as the Korean War.

With regard to prices in the Soviet Union, Mr. Alkhimov thought that the whole system was badly in need of revision in order to do away with the two-price system and to bring internal prices more into line with external prices. He stated by way of example that he had once worked for two years, without arriving at any very helpful results, to try to determine whether it was more profitable to produce gold or timber for export. This was typical: because of the inadequacies in the price system it was impossible to determine the true comparative advantage in this or that line of production. He seemed to have taken the lead in internal discussions in Soviet economic circles in pressing for a reform of the price system and had encountered severe criticism from others, notably from his chief, Mr. Orlov, President of his institute.^{1/} Mr. Alkhimov also helped to initiate public discussion of the issue, starting with a contribution to the journal Voprosy Ekonomiki two years ago. Now Mr. Konrad of the Institute of Economics was, at Mr. Alkhimov's suggestion, devoting intensive study to the problem. The heart of the difficulty was the failure, in the pricing of producers' goods, to make adequate allowance for capital costs. In the pricing of consumer goods, an attempt was made to correct for this deficiency, both by upward adjustment in the prices of raw materials and by a fuller allowance for capital costs in the consumer industries themselves. This, however, was an arbitrary and unsatisfactory method and the real need was to reform the whole system. Mr. Alkhimov again gave an indication of his respect for the creative capacity of the Chinese communists in saying that they had been more alert to the problem than the Soviet Union and come nearer to a satisfactory solution. Internal prices in Communist China were more in line with external prices and, in addition, the Chinese allowed the prices of numerous lesser items to find their own levels (whereas in the Soviet Union there could be wide divergences between prices on the free markets and those in the State shops). A few

^{1/} I have received a certain impression that personal relations between the two may not have been very good. Certainly Orlov, though outwardly friendly, was always in my contacts with him in Geneva and Moscow, much more negative and close-mouthed than Alkhimov. In a visit to the Institute in December 1956 he quickly shut off any serious attempt to discuss Soviet or Soviet Bloc price problems in relation to international trade along the lines reported here.

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months ago there had been a meeting between Soviet and Chinese experts on pricing problems, at which the Chinese demonstrated their ability to fire penetrating questions about the Soviet system. This topic had also been recently taken up at a meeting of Eastern European countries. Czechoslovakia, like China, was nearer a satisfactory solution than the Soviet Union, possibly because of the much greater dependence of Czechoslovakia on foreign trade.

We did not get very far during our lunch in the matter of sources of information on the United States economy, and Mr. Alkhimov said that he would like to get in touch with us later on. His interests seem to be partly of a personal nature, as an economist, since his present duties are more in the field of trade negotiations.